

# Exhibit 2



**Department of Health and Human Services**  
**OFFICE OF**  
**INSPECTOR GENERAL**

**THE IMPACT OF HIGH-PRICED  
GENERIC DRUGS  
ON MEDICARE AND MEDICAID**



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based on the median of generic drugs with prices less than the brands, Medicare and its beneficiaries could have saved \$12 million for the four drugs.

***Florida's Medicaid program could have saved half a million dollars for just eight drugs in 1996 if higher-priced generic drugs had been reimbursed at brand prices.***

Using the current reimbursement formula, Florida Medicaid in some cases paid three times more for a generic than it did for the brand version of the eight drugs reviewed. After factoring in manufacturer rebates, the program paid more than five to eight times more for generics than brand products. If Florida Medicaid had capped reimbursement for higher-priced generic drugs at the reimbursement level for the highest-priced brand drug, nearly half a million dollars would have been saved for just eight drugs in 1996.

#### **RECOMMENDATIONS**

There is evidence that high-priced generic drugs have a significant financial impact on Medicare and Medicaid reimbursement. We found that the inclusion of higher-priced generic drugs in Medicare payment calculations can raise allowances above the price of brand-name drugs. In the Medicaid program, utilization of higher-priced generic drugs was widespread among the drugs reviewed.

We believe further reductions need to be made in Medicare and Medicaid reimbursement for prescription drugs. We continue to support the Health Care Financing Administration's legislative proposal to link Medicare reimbursement to the acquisition cost of prescription drugs. However, until broader legislation is enacted, we believe refinements to the current system are needed. Since the changes recently enacted by Congress continue to link reimbursement to average wholesale prices, we believe that mechanisms should be in place to limit the impact that high-priced generic drugs have on reimbursement. Medicare's new reimbursement methodology for prescription drugs will not prevent higher-priced generics from increasing Medicare allowances. Higher-priced generic drugs will still be included in the median calculation. When the median generic policy was implemented, generic prices were normally less than those of the brand-name product. However, what may have originally been a cost-saving mechanism has, for certain categories of drugs, become a losing proposition.

We believe that the Medicare program should take action to prevent these situations. We recommend that the Health Care Financing Administration 1) not include higher-priced generic drugs in the median calculation to determine Medicare allowances, or 2) propose limiting Medicare allowances to brand prices when higher-priced generic drugs are involved.

In contrast to the Medicare program which pays for brand and generic drugs at the same rate, Medicaid reimburses based on the specific drug supplied. Therefore, we recommend that the Health Care Financing Administration limit Medicaid reimbursement of higher-priced generic drugs to the amount reimbursed (prior to rebate) for lower-priced brand or appropriately-priced generic drugs.